

Message Text

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C O N F I D E N T I A L SECTION 01 OF 02 OECD PARIS 07643

FOR J. KATZ FROM A. KATZ

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: ENERGY: ROLE OF INTERNATIONAL OIL COMPANIES

1. THERE FOLLOWS TEXT OF ITALIAN PAPER WITH THEIR CONTRIBUTION (SIC) TO OIL COMPANY STUDY AND GERMAN PAPER WITH THEIRS. I RECEIVED BOTH FROM OCURENT, AND AM BEING ASKED WHEN OURS WILL BE READY. THESE PAPERS INDICATE THE BIASES WE ARE GOING TO HAVE TO DEAL WITH IN FASHIONING THE PROPOSALS ON THE ROLE OF THE INTERNATIONAL OIL COMPANIES.

2. BEGIN TEXT: ITALIAN PAPER DRAFT FOR THE REPORT ON THE OIL COMPANIES

1) PAST AND PRESENT OF THE INTERNATIONAL OIL COMPANIES

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AND THE OTHER OIL COMPANIES

THE EIGHT COMPANIES WITH INTERNATIONAL SCOPE OF ACTIVITIES (THE SO CALLED "MAJORS") FORMED THE BACKBONE OF THE GLOBAL OIL SUPPLY AND INVESTMENT STRUCTURE. ALONGSIDE THEM, NATIONAL COMPANIES OF CONSUMER AND PRODUCER COUNTRIES AND SO CALLED INDEPENDENTS DID OPERATE, BUT IN MOST CASES ON A MARGINAL SCALE.

THE ROLE OF THE INTERNATIONALS WAS MAINLY THEIR ABILITY TO BALANCE SUPPLY AND DEMAND BY PRODUCING ROUGHLY AS MUCH CRUDE OIL AS THEY COULD SELL. NOW THAT THIS ROLE OF DECISION MAKING IN RESPECT OF PRODUCTION, INCLUDING THE INVESTMENT DECISIONS, IS BEING TAKEN AWAY FROM THEM IN OPEC COUNTRIES A REASSESSMENT IS REQUIRED.

2) POSSIBLE FUTURE DEVELOPMENT OF THE INTERNATIONAL OIL INDUSTRY

THE INTERNATIONAL OIL COMPANIES, THOUGH REDUCED IN SCOPE AND SHARE, REMAIN IN THE NEAR FUTURE AN INDISPENSABLE PART OF THE WORLD STRUCTURE, BUT THE TRADITIONAL MAJOR OIL COMPANIES WILL NO LONGER BE MOTIVATED TO THE SAME EXTENT AS PREVIOUSLY BY THEIR CRUDE OIL AVAILABILITY TO INVEST IN CONSUMER COUNTRY REFINERIES AND MARKETING, IN FACT THEY MIGHT WISH TO WITHDRAW FROM ACQUIRED POSITIONS.

ON THE OTHER HAND A STRENGTHENING OF NATIONAL COMPANIES IN CONSUMER COUNTRIES IS NECESSARY BECAUSE IT IS THEY WHO WILL HAVE TO TAKE OVER CERTAIN ACTIVITIES PREVIOUSLY CARRIED ON BY THE TRADITIONAL INTERNATIONALS.

SINCE NATIONAL GOVERNMENT OWNED COMPANIES OF PRODUCER COUNTRIES WILL HAVE A GREATER ROLE TO PLAY, IT IS INEVITABLE THAT GOVERNMENTS AND STATE COMPANIES IN CONSUMER COUNTRIES SHOULD BE ABLE TO BECOME EFFECTIVE INSTRUMENTS. THIS WILL APPLY NOT ONLY TO "DOWNSTREAM" OPERATIONS IN THEIR OWN COUNTRIES BUT ALSO TO INVESTMENTS ELSEWHERE IN EXPLORATION AND PRODUCTION.

BECAUSE OF THIS SHRINKING ROLE OF THE MAJORS AND THE NEW EXPANDED ROLE OF THE NATIONAL COMPANIES IN CONSUMER COUNTRIES, IT IS NECESSARY TO DEVELOP VIABLE NEW ALTERNATIVES.

IN THIS CONNECTION, THERE IS URGENT NEED FOR THE RELATIVE POSITIONS OF ALL THE OPERATORS TO BE DEFINED AND TO BE SAFEGUARDED.

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3) PROPOSALS FOR A NEW SETTLEMENT OF THE INTERNATIONAL OIL INDUSTRY

WITH REFERENCE TO THE ABOVE MENTIONED SITUATION A SYSTEM SHOULD BE ENVISAGED IN WHICH THE VARIOUS ELEMENTS CAN COEXIST AND COOPERATE. FOR THIS TO HAPPEN THE PRECONDITIONS SEEM TO BE:

A) IF THE PRESENT TREND TOWARDS (AT LEAST NOMINALLY) TOTAL "PARTICIPATION" OF OPEC COUNTRIES GOVERNMENTS

MATERIALISES. THE OPERATIONAL ROLE OF THE PREVIOUS CONCESSION HOLDERS IS LIKELY TO BE MAINTAINED TO SOME EXTENT AND INSTEAD OF HAVING THE ORIGINAL BENEFIT OF DISPOSING OF "EQUITY" OIL THEY ARE LIKELY TO HAVE SUBSTANTIAL SECURITY OF ACCESS TO SUPPLIES AND ALSO SOME PRICE ADVANTAGE IN RESPECT OF THE "BUYBACK" QUANTITIES.

B) TRANSPARENCY OF THESE ARRANGEMENTS WILL BE ESSENTIAL. TO AVOID EXCESSIVE PROFITS WITHOUT HOWEVER AFFECTING THE VIABILITY OF THE OPERATION. TRANSPARENCY IS ALSO REQUIRED IN ORDER TO AVOID A SITUATION IN WHICH THOSE OPERATORS OUTSIDE THE EIGHT INTERNATIONALS ARE
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EXCESSIVELY HANDICAPPED BY HAVING TO RELY ON SUPPLIES IN AN UNREGULAR MARGINAL MARKET WHOSE PRICES FLUCTUATE WIDELY AND CAN BE (AS THEY WERE RECENTLY) MUCH HIGHER THAN THE LEVEL OF MAJOR COMPANY PRICES.

C) SUCH TRANSPARENCY MIGHT LEAD TO A TRIANGULAR ORDER IN WHICH THE TRADITIONAL COMPANIES (WHOSE SHARE IN THE TOTAL FLOW OF OIL IS GOING TO SHRINK ANYWAY) WILL HAVE AN AGREED ADVANTAGE IN RECOGNITION OF THE LOSS OF THEIR RELATIVE POSITION CLARIFIED AND ASSURED.

D) IT IS LIKELY THAT THE INTENDED CONTACTS BETWEEN CONSUMER AND PRODUCER COUNTRIES WILL PROVIDE OPPORTUNITIES FOR THE LATTER TO EXAMINE THE ADVANTAGE FOR THEM OF A MORE STABLE AND STRUCTURED SET-UP. THE RECENT DISAPPOINTMENTS THEY FACE WILL HAVE PROVED TO CONFIDENTIAL

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THEM THAT AN "AUCTION" SYSTEM OF DISPOSAL IS IN THE LONGER RUN DISADVANTAGEOUS FOR THEM TOO. AN INDUSTRY WHICH DEPENDS ON HEAVY SUSTAINED INVESTMENTS CANNOT BE RUN IN THIS WAY. END TEXT

3. BEGIN TEXT GERMAN PAPER PROBLEMS IN THE RELATIONSHIP BETWEEN THE INTEGRATED INTERNATIONAL OIL COMPANIES AND NATIONAL OIL COMPANIES IN THE CONSUMER COUNTRIES

I. THE NON-INTEGRATED NATIONAL OIL COMPANIES HAVE BEEN INVOLVED UP TO NOW IN THE WORLDWIDE SUPPLY NETWORK OF THE INTERNATIONAL OIL COMPANIES. UNDER PARTICIPATION AGREEMENTS, THE INTERNATIONAL COMPANIES ARE INCREASINGLY LOSING CONTROL OF PART OF THEIR PRODUCTION BUSINESS AND ARE THEREFORE CONCENTRATING ON SUPPLYING THEIR OWN PROCESSING FACILITIES. TO A CORRESPONDING DEGREE, NATIONAL COMPANIES ARE HAVING TO SWITCH TO DRAWING THEIR SUPPLIES OF CRUDE FROM THE STATE-OWNED COMPANIES IN THE PRODUCING COUNTRIES.

THE NARROWING OF THE MARKET IN CRUDE OIL IS LEADING, IN THE CONTEXT OF THIS RESTRUCTURING PROCESS, NOT ONLY TO SUPPLY PROBLEMS FOR THE NATIONAL COMPANIES BUT ALSO TO DISTORTIONS OF COMPETITION WHICH SERIOUSLY THREATEN THE MARKET POSITION OF THESE COMPANIES IN THE CONSUMER COUNTRIES. THE MOVEMENT OF "MARKET PRICES" IS GIVING THE INTERNATIONAL COMPANIES, WHICH EVEN TODAY ARE ABLE TO OBTAIN CRUDE LARGELY AT COST PRICE, A CONSIDERABLE COMPETITIVE EDGE OVER THE NON-INTEGRATED COMPANIES, WHICH HAVE TO RELY MAINLY ON BUYING AT "MARKET PRICES". AT THE SAME TIME, MANY CONSUMER COUNTRIES COULD NOT DO WITHOUT THE SUPPLIES WHICH NATIONAL COMPANIES PROVIDE.

II. GIVEN THIS GENERAL SITUATION, THE WORKING PARTY DEALING WITH THE RELATIONSHIP BETWEEN THE INTERNATIONAL AND NATIONAL COMPANIES COULD EXAMINE THE FOLLOWING

TOPICS:

- THE EFFECTS OF PARTICIPATION AGREEMENTS ON THE RELATIONSHIP BETWEEN INTERNATIONAL AND NON-INTEGRATED NATIONAL COMPANIES;
- THE PRESENT POSITION AND INTERESTS OF THE INTERNATIONAL

AND NATIONAL COMPANIES VIS-A-VIS THE STATE-OWNED
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COMPANIES IN THE PRODUCING COUNTRIES. POSSIBLE WAYS OF RECONCILING INTERESTS AND CHANCES OF CO-OPERATION;

- ADDITIONAL STEPS BY THE NATIONAL OIL COMPANIES TO SECURE THEIR SUPPLIES IN THE LONG TERM, AND THE EFFECTS OF THESE ON THE POSITION OF THE INTERNATIONAL COMPANIES; THE LIMITS SET ON POSSIBLE GOVERNMENT ASSISTANCE;
- THE EFFECTS OF THE WIDE DISCREPANCY IN THE COST OF CRUDE TO THE INTERNATIONAL AND NATIONAL OIL COMPANIES ON THE COMPETITIVE POSITION OF THE LATTER AND ON THEIR SHARE IN SUPPLYING THE MARKET; THE BEHAVIOUR OF THE INTERNATIONAL COMPANIES;
- CONSEQUENCES FOR THE POLICIES OF THE CONSUMER COUNTRIES. END TEXT

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